



Public Service Commission of Wisconsin

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Increased Fuel Costs and Capital Costs Drive MG&E Rates

MADISON - Today, the Public Service Commission of Wisconsin (PSC) reviewed Madison Gas and Electric's (MG&E) request for an increase in electric and gas rates and found that increased fuel costs and investments in infrastructure to meet growing energy needs were major factors.

The Commission trimmed costs wherever possible, but found that over half of the rate increase was due to the increased cost of fuels, especially natural gas prices. Natural gas prices have increased dramatically over the past few years and spiked recently due to the impact of Hurricanes Katrina and Rita this fall. Natural gas is an unregulated commodity and utilities largely pass fuel costs directly through to the customers. For comparison, natural gas prices last year at this time were \$7.32 per decatherm and today they are \$12.32 per decatherm, a 68 percent increase.

In a verbal decision the Commission set overall electric rates for MG&E to increase by an estimated 11.7 percent. Fuel costs and costs for capital improvements to meet growing energy demand account for approximately \$33 million of the \$ 35.7 million increase allowed by the Commission. In addition, the Commission approved an estimated \$3.7 million or 1.5% increase in gas rates. Construction costs for projects to meet growing energy demands included new transmission, the new University of Wisconsin Madison Cogeneration power plant and MG&E's portion of the construction costs for the new power plants in Oak Creek.

The Commission also set a return on equity for MG&E shareholders of 11 percent, lower than proposed by the utility. The Commission pointed out that it is important to find the right balance between the need to attract investors when utilities are making significant infrastructure improvements and to keep rates as low as possible.

The Commission decided that residential rate increases should be below the overall average for all customers. Under today's decision, the average residential MG&E customer will see a monthly increase of \$7.50 for electric service and \$1.50 for gas service.

The Commission will allow MG&E to come back for fuel adjustments in the future if its fuel costs are over 2 percent of its predicted amount while also requiring rate reductions if fuel costs are just 0.5 percent less than estimated. Although this is a departure from past PSC policies, the Commission believed that the change was necessary to help lower impacts of high natural gas prices on families and businesses and to return fuel overcharges to customers more quickly.

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When a utility requests a change in rates, the PSC conducts a thorough audit of the utility's forecasted expenses and revenues. The agency looked at the amount MG&E needs to provide a reliable source of energy to customers, which includes costs for maintenance, new construction, fuels, environmental protection and employee wages.

MG&E filed its application for a rate increase in April 2005 and updated its request in June. Public hearings were held in October. The testimony provided at the hearings became part of the record developed for the Commission to review as it considered all the aspects of the application.

The Commission will issue a written order to finalize the rates approved in today's decision. The new rates become effective after the written order is issued, but not before January 1, 2006.

The documents associated with MG&E's application can be viewed on our Electronic Regulatory Filing System at <http://psc.wi.gov/>. Type case number 3270-UR-114 in the boxes provided on the PSC homepage or click on Electronic Regulatory Filing System button.

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